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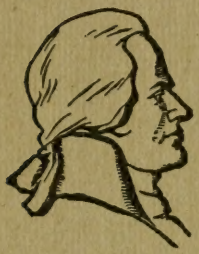
[Modern business talks]

BUILDING UP YOUR BANK CREDIT

Bank credit, like good-will, is built up by many actions and may be lost by one.

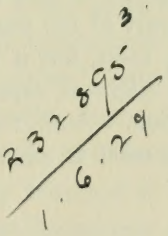


MODERN BUSINESS
TALK No. 31
(WITH VOLUME 16)

ALEXANDER HAMILTON INSTITUTE
NEW YORK

Building Up Your Bank Credit

This Talk, to be read in connection with Volume 16, forms part of READING ASSIGNMENT 31



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NEW YORK

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READING ASSIGNMENT

The current Reading Assignment consists of three parts: (1) this Talk, (2) Chapters I to X of Volume 16, "Banking," and (3) Lecture No. 16.

Trailing the other man all the time, which is what most business men do, is but eating the crumbs under the table. There is more nourishment in sitting in at the big feast. That means, first learning business by its principles and then beating the other man to it, for at least part of the time. Banking theory, to be sure, is strong meat, but it will not tax any normal digestion in the slightest, especially if it is well salted with imagination. And, for the man who wants to grow, strong meat is what the doctor orders.

Building Up Your Bank Credit

> One's credit standing at the bank should be guarded with care. This credit standing, however insignificant, should not be allowed to open a breach between the banker and the depositor, for the changing of an account may hurt the depositor as much as it does the banker.—Page 85, Chapter V, Volume 16 of the MODERN BUSINESS Text.

Every business man looks back on a number of what we call red-letter days. They generally start with that most important of all important days, the day on which he got his first "raise"; nothing since then has ever given him quite the same kind of a thrill. And the day he dictated his first letter; it was ten lines, but he had practically learned it by heart! And then, too, that never-to-be-forgotten day when he put over his first big deal and the manager came out of his office especially to shake hands with him.

There are other days, more serious and pointing straight on to the bigger things as he now knows them. And one of these is the day he first learned how to build up a big borrowing capacity at his bank.

A Seed That Sprouted

Some years ago a young man who was then associated with his father in a growing retail business took a holiday outing with his trade association. One of the men he met was the vice-president of a commercial bank near his store. Possibly the banker had sought him out. At all events the two fell to chatting and after some more or less general talk the banker took occasion to ask if the young merchant were able to secure all the accommodation he required from the bank he dealt with.

This was a matter about which the young merchant had never troubled his head, it being entirely the concern of his father. But having his wits with him, he quickly grasped the possibilities behind the question, tho he was shrewd enough to show no signs of more than ordinary interest.

"How much accommodation would you be prepared to extend?" he asked.

"How much would you ordinarily want?" the banker returned.

The merchant named an amount twice as large as his house had been in the habit of getting.

"Oh, Mr. Brown," replied the banker, "I know your house very well and that amount could very easily be arranged."

This gave the young merchant something to think about. Some days later, when the house had occasion to apply for credit to the bank, he persuaded

his father to leave the matter in his hands. Instead, however, of going to the banker who had given him the idea of larger credits he applied to his own bank. He insisted there on ampler accommodation, saying that he knew he was entitled to it and that he knew where he could get it elsewhere if he wanted it. His insistence won, and the bank, yielding, extended him a more liberal loan than ever before.

This, however, was not the end of the incident. It opened the young man's eyes to the possibilities that lie in a systematic building up of bank credit. Eventually he left his father's store and set up in business for himself. Within fifteen years he was the head of a large concern which gave him a personal income of over half a million dollars a year.

Now you are not asked to believe that such success could be built up on borrowing alone. That was only one factor. Necessarily growth in borrowing capacity had to follow a growth in business capacity. But it was an undoubted and tremendous stimulant.

"More than any other single experience that I can recall," says the merchant, "it woke me up."

Bitter Medicine

It seems to be the opinion of bankers that many business men miss a chance here, that they do not study, work, scheme, as the young merchant did, to improve their credit standing.

The illustration is no doubt an extreme one. But anybody with good average business ability and a fair start ought to be able to move right along up,

with the banker's help, if he will work with the banker. Genius is not necessary.

I put just that question recently to a banker of long experience. He leaned back in his chair and smiled. Evidently it awakened reminiscences. I knew there was a story coming and waited patiently. "You have heard," he said, "stories of men who had an accident and have lost themselves mentally; they come back to life without a memory, and flutter about without half knowing what they are doing. Once in a while you find business men like that. In both cases, it is only a severe jolt that brings them back to their senses. The novelist has a hundred ways of doing it, but in business it is usually the bank that turns the trick.

"I remember four young fellows who were partners. They were industrious and had built up a small but prosperous business. But, intellectually, they were pretty light timber. Of course the bank accommodated them with the reasonable line of credits which their business warranted. But they grew ambitious and came to me with big plans that required larger backing. I knew they could not swing the business, as they had neither the training nor the character to undertake the risks involved. As gently as I could, I told them so. As they still insisted, I had to come out with a flat-footed refusal, and eventually to ask them to withdraw their account.

"They left in a rage and I have not seen them since. Their account has been given to another bank. The second banker who is a good friend of mine

told me that he would have nothing to do with their schemes, and had given them some straight-from-the-shoulder advice. They were ready this time to listen to it, and followed it. They braced up the weak spots in their business and put their affairs in order for a natural business growth. This came in time and the account grew to be an important one, entitled to large credit when needed.

"No, they never thanked me. But I guess I did them some good. There are some men who only learn sense thru drastic treatment. The medicine is bitter, but the cure is complete."

Making the Most of Banking Connections

The banker has to do a lot of that kind of constructive service. These chapters on "Loans and Discounts," "Deposits and Checks," "Establishing Bank Credit" and "Analyzing the Bank's Statement" in the current reading assignment of the MODERN BUSINESS Text will, from the organized way in which the information is presented, furnish even some experienced business men, possibly, with fresh angles for ideas.

Rising Thru the Bank's Aid

A simple little incident—true, too-taken out of the West and the farming country, carries its own lesson. A farmer of 33 or 34 years of age, with his small farm a mile or two out of the village nearly paid for, and a little money in the bank, was not very much in love with farming; he was, in fact, looking

around to see where he could turn a more agreeable penny. There was in the village a grocery and general store, one of three, very much run down under the care or rather the neglect of an elderly incompetent.

The young farmer, who traded at the store. experiencing its failure in service and hearing almost daily the gossip as to its eventual dissolution, made up his mind to try his hand there. He studied the situation carefully, compared notes with the storekeeper's clerk and then talked with the old man. He found the latter quite willing to sell out for a small sum down and the balance on time.

The terms presented no difficulties, but the store needed restocking to the extent of several hundred dollars. Some of the new goods he figured to get on time from the wholesalers, but they would hardly turn rapidly enough to pay for themselves in due season, and there were other goods which he could get only for cash. He saw that he needed the bank's help. He had, in fact, counted on it.

He went around to the bank, where he kept his account, the one bank in the village. As in most banks of this sort, the cashier was the whole thing. He knew the farmer like a brother and was not surprized to hear that a deal for the village store was under way.

"How have you fixed it up with Bill?" he inquired. Bill was the storekeeper.

"I'll give him a note with a second mortgage on the farm."

"And what do you want us to do?" continued the cashier.

"I want six or seven hundred dollars to buy goods and to carry me until I can turn them."

"Hm! You going to tend store?"

"Well, Jake with me."

"How much business are you figuring to do," asked the cashier.

The farmer told him, reading the figures from the back of an old envelope. Then he went on to explain what mistakes Bill had made and what he himself was planning to do; what trade he was going to keep and what trade he was counting on coming to him. The cashier listened, nodding and criticizing.

"I tell you what you do, George," he said at last. "You cut out some of those extras and we'll let you have enough to cover the balance—$500. Then if things are going all right in a couple of months, why, come around again and talk it over."

It was fixed up that way with a four months' note. George met that all right and established his credit. The store flourished and in time became the leading one in the village and section.

That is a typical case of starting business on bank credit. Thousands of businesses, mercantile and manufacturing, have had a similar beginning.

Nursing One's Bank Credit

Now with the demonstration of the vital importance to them of ample credit, which business men have constantly before them, with the conviction they

have and which is largely justified, that the difference in borrowing capacity is often the difference between a big success and a little one, would you not naturally suppose they would, every one of them, devote some very serious thought to it?

Well, if you take the bank's word for it, that is about the last thing many business men do.

A small manufacturer went to his banker and told him he positively must have so much money by such and such a day and that there was nobody but the banker to look to. He reminded the latter that he had promised him the accommodation.

"I don't remember saying that, Mr. Smith," replied the banker, "I do remember telling you that if you installed a proper accounting system so that both of us could see what was going on in your business, that probably then we might find we could help you.

"What have you done, by the way," he continued, "about reorganizing your office and factory so that you will find time to get out yourself and check up your city salesmen, which you declared was necessary? Are you still letting those accounts run that you promised to close up? Did you do anything about strengthening those collection letters we talked over? Did you get rid of that foreman who you said was disorganizing your factory force? Have you any more accurate figures on your costs? You remember we agreed these things were important and affected your credit."

This put it up to the manufacturer. He did recall that he had had a conversation with the banker

a few weeks before. It was a heart to heart talk and he had been very much encouraged by the interest the banker had shown in his business. He had made a mental note to start some of the things the banker had suggested, but had slipped it apparently into some mental pigeon-hole and forgotten it. All that he retained of that interesting conversation was the impression that something would or might be done in the way of extra accommodation—all the "buts" and "provisos" were overlooked.

If Only to Help Credit

Why doesn't every manufacturer, why doesn't every merchant, study his business systematically for the important purpose of improving it, eliminating outgrown, roundabout, time-and-money-consuming methods and so reducing costs, if for no other reason than to improve his credit standing? Is it really any wonder that the successes of men who do study their businesses and do train themselves for bigger things are, by comparison, so sensational?

"We have many borrowers," said a banker, "who never seem to look a day ahead, except to worry. They buy late, they are late in selling and they are late in coming to us. The first we know of their wants is when they come in to negotiate an immediate loan—it always is 'immediate.' I presume they think they can put pressure on the bank that way.

"They always ask, too, for a larger loan than they must know they can get, probably in the belief that we will not have the heart to trim off all the excess.

We invariably require a statement of condition, and almost invariably they overlook that until reminded of it.

"You should see some of the statements that come back! Three-quarters of the questions not answered at all. No information on vital matters. Figures scratched out and rewritten. What evidence could be plainer that the applicant either doesn't know his business or else is concealing something?"

Fortunately for the man and the community, the banker often knows the customer's situation better than he does himself. Jones, the machinist, we'll say, can hardly write his own name, let alone keep his accounts straight, but he has a head for selling, and is a practical factory manager. It is safe to give him about so much. Thompson, the dry-goods man, is a poor hand at business, but has competent assistance and a good market. So he gets what he needs.

Virtually all requests have to be scaled down. Bankers are probably right in believing that most business men habitually ask for too much and would be ruined if they got it, since too much capital is often quite as dangerous as too little.

A bank customer, for instance, presents a satisfactory statement. It does not, however, contain one highly important fact, namely, that he owes his brother-in-law $15,000. He has now used up all that money and needs more. But his brother-in-law is also pressing him for repayment of part of the sum. The banker, not being in the secret as to the family

loan, and there being nothing in the statement to show that the man has already used up his capital, extends the credit.

The customer, however, instead of putting it all into the business as he is expected by the banker to do, pays over the larger part of it to his creditor, and so has the use of the balance only. Then, in a few months, comes a new crisis, and at last the crash. Then it is too late—the banker has no power to raise the dead.

If the man had told the truth in the beginning he might have been saved. He probably would not have received the credit he wanted, but it was advice, more than credit, that he needed.

A large majority of all business failures show concealed liabilities. These are not always the immediate causes of failure, but generally contribute to it.

Deceiving the Banker is Expensive

To leave the banker in the dark may be natural, but it can hardly be anything else but expensive. It is human for a man to object to being called up on the carpet and forced to expose his little weaknesses. But isn't it what he needs?

Service the Essence of Banking

Does the reader appreciate what it means to him as a borrower, either now or in the future, that banks do not compete in price, that is to say, in discounts? The rate of discount or exchange is fixed by the Reserve Banks, and is uniform for all on a given date.

This kind of price-fixing shifts the basis of competition to service. Bankers can get and keep customers only by making themselves useful and agreeable. The old-time bankers were the autocrats of business. Modern bankers have pulled down the partitions that once screened them from the vulgar herd, and have made themselves accessible to customers. They go out after business. They even advertise.

The most significant result of this service competition among the banks is that it has made them progressively constructive. Leading bankers to-day know business and are able to advise their customers on business matters. They are virtually auditors and perform many of the invaluable services that auditors perform in the line of criticism and suggestion.

Moreover, business men, too, are coming to the front in banking. When a leading trust company of New York City was reorganized two or three years ago, two men were put in charge, one an insurance agent and the other a hardware manufacturer. What they knew about the technical details of banking was next to nothing. They did know business and human nature, and that seems to have become the best kind of banking equipment.

These facts ought to mean, and do mean, a tremendous lot to young men. Expert advice for nothing—virtually—since it costs no more to get the best advice than none at all, loan and discount rates being the same in either case. The right sort of a banker is plainly a big constructive force to tie up to, essentially a partner to be taken into one's confidence.

How Bankers Can Help

The banker often has a vast store of knowledge and sound judgment at the disposal of those who need it and who do not abuse privileges extended. He can often give valuable credit information to his customers, he can suggest to them how to improve their accounting systems, he can open their eyes to the necessity for proper cost finding, for taking periodical business inventories, for working from a budget. Bankers have been active in recommending that business houses insure their executive heads on account of the direct bearing it will have on the credit standing of the house in the event of their death.

The lessons of banking are not alone for those already established in business. The young man, too, who reads the accompanying assignment in the Text with his eyes open and imagination agog will quickly see where his interest in the subject of banking lies, even if he has not yet entered business himself, or is at present engaged only in climbing the ladder of preferment in some department of business. He will not fail to realize that he can hardly begin too early to build up his credit standing at the bank so that when he needs the credit later on, it will be there waiting for him. Perhaps the Liberty Loan issue has already afforded him the opportunity for a beginning.

Make a Beginning Early

There is one way so frequently practised by far-sighted men and concerns—and so acceptable to

bankers—that it might almost be called standard. It is described at length in the chapter on "Establishing Credit."

You first open an account at the bank. Soon you effect a small loan, giving your note. In due course you take up the note, promptly. Later you borrow a larger amount, and of course in time take up that note also, and so on. The meeting of these successive obligations is the best evidence of reliability a bank can have. It is assumed, of course, that you are making wise use of the successive loans and that the bank knows it; the plan cannot be carried out without saving and wise investment; all these things go together, as they should.

There is a modern business saying, that "a man never amounts to anything until he gets into debt." It is a dangerous doctrine for the weak brother, but it is the strong man's making.

The details in the Text about the inside workings of a bank, about the clearing-house, the nature of bank-notes, about where a bank makes its money, and about the relation of a bank to the Government, are therefore anything but dry and inconsequential details. They are, on the contrary, so many means of enabling you and other readers to do with ease and dispatch what many shrewd and highly successful men have spent many years learning.

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